

Message Text

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PAGE 01 BRASIL 01236 202133Z
ACTION TRSE-00

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FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC NIACT IMMEDIATE 6120

C O N F I D E N T I A L BRASILIA 01236

PASS TREASURY FOR ASST SEC BERGSTEN

E.O. 11652: GDS
TAGS: ETRO, EFIN, BR
SUBJECT: TREASURY-MINISTRY OF FINANCE TALKS

REF: A) BRASILIA 0716, B) STATE 37598

1. MINISTRY OF FINANCE GENERAL COUNSEL FRANCISCO DORNELLES
CALLED FINATT TO MINISTRY AT 10:30 MONDAY 20 FEBRUARY TO ASK
THAT FOLLOWING LETTER FROM MINISTER SIMONSEN TO SECRETARY
BLUMENTHAL BE TRANSMITTED IMMEDIATELY. ORIGINAL IS BEING
POUCHED.

2. QUOTE: BRASILIA, FEBRUARY 20, 1978, DEAR MR. SECRETARY,

I WISH TO EXPRESS MY SATISFACTION WITH THE VISIT TO
BRAZIL ON FEBRUARY 27 OF A DELEGATION OF THE U.S. TREASURY
DEPARTMENT TO BE LED BY MR. GARY C. HUFABUER, DEPUTY ASSISTANT
SECRETARY FOR TRADE AND INVESTMENT POLICY.

I HOPE THAT DURING THE WEEK THE U.S.M DELEGATION WILL STAY
IN BRASILIA THE REPRESENTATIVES OF THE TREASURY DEPARTMENT AND
OF THE MINISTRY OF FINANCE WILL BE ABLE TO ESTABLISH AN AMPLE DISCUS-
SION
OF ISSUES CONCERNING THE ECONOMIC RELATIONS BETWEEN
THE UNITED STATES AND BRAZIL IN ORDER TO ACHIEVE
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CONSENSUS IN CERTAIN AREAS OF MUTUAL INTEREST TO BOTH
COUNTRIES.

I BELIEVE THAT THIS DIALOGUE WILL PROVIDE A BETTER
UNDERSTANDING OF EACH SIDE'S PROBLEMS, THUS HELPING TO IMPROVE
THE GOOD STANDING OF OUR PRESENT ECONOMIC RELATIONS.

ONE OF THE IMPORTANT ISSUES TO BE DISCUSSED IS RELATED TO THE PROPOSED REVOCATION OF THE IRS RULING 57-106/57 (CONCERNING THE CREDITABILITY OF THE BRAZILIAN WITHHOLDING TAX ON INTEREST PAID TO AMERICAN LENDERS) AND THE CONSEQUENCES THAT SUCH REVOCATION MAY HAVE ON AMERICAN LOANS TO BRAZIL.

AS WE HAVE TALKED BEFORE, IT WOULD BE VERY IMPORTANT FOR THE BRAZILIAN SIDE THAT IN THE EVENT OF REVOCATION A TRANSITION PERIOD BE ALLOWED WITH RESPECT TO INTEREST ON LOANS ENTERED INTO PRIOR TO THE DATE OF REVOCATION. IT WOULD BE IMPORTANT THAT THE TRANSITION PERIOD COULD COVER THE INTEREST DURING THE LIFE OF SUCH LOANS.

I HOPE THAT WE CAN FIND A COMPROMISE SOLUTION AND, FOR THE PURPOSES OF IMPLEMENTING SUCH SCHEME, THE CENTRAL BANK OF BRAZIL WILL BE ABLE TO PROVIDE THE APPROPRIATE INFORMATION.

KINDEST REGARDS. SINCERELY YOURS, MARIO HENRIQUE SIMONSEN
MINISTER OF FINANCE EN QUOTE.

3. DORNELLES REITERATED CONCERN EXPRESSED EARLIER (REF A) THAT TIMING OF REVOCATION OF AX CREDIT ON INTEREST REMITTANCES REMAIN OPEN AND BE A SUBJECT FOR DISCUSSION AT UPCOMING TREASURY/MINFIN TALKS. HE POINTED OUT THAT MATTER WAS NOT SETTLED IN OCT-NOV 1977 OWING TO CONFIDENTIAL

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SCHEDULING DIFFICULTIES ON PART OF BOTH TREASURY AND GOB OFFICIALS. HE UNDERSTOOD AT TIME OF BERGSTEN VISIT IN DECEMBER THAT REVOCATION DECISION ITSELF WAS FIRM BUT HAD IMPRESSION THAT TIMING OF IMPLEMENTATION REMAINED OUTSTANDING ISSUE TO BE RESOLVED. HE STATED THAT OBJECTIVE OF ABOVE LETTER FROM SIMONSEN TO SECRETARY BLUMENTHAL IS IN LARGE PART TO CONVEY HIGHEST LEVEL GOB DESIRE THAT TAX CREDIT REVOCATION STILL BE SUBJECT OF DISCUSSION. DORNELLES INDICATED GOB INCLINED TO HAVE GOB'S AMERICAN LAWYERS PARTICIPATE IN TALKS IN BRASILIA. HE ASKED THAT TREASURY INDICATE AS SOON AS POSSIBLE WHETHER HUFBAUER TEAM WILL BE PREPARED TO DISCUSS MATTER OR WILL SIMPLY DELIVER FAIT ACOMPLI.

4. DORNELLES ALSO EXPRESSED GOB INTEREST IN HEARING U.S. VIEWS AND DISCUSSING MULTILATERAL NEGOTIATIONS CONCERNING EXPORT SUBSIDY/COUNTERVAILING DUTY CODE. HE INDICATED THAT FOREIGN TRADE INSTITUTE (CACEX) AND FOREIGN MINISTRY WOULD ALSO PARTICIPATE IN TALKS ON THIS SUBJECT:.

5. U.S. TEAM HAS FIRM APPOINTMENT WITH MINISTER SIMONSEN AT 11:00, TUES., 28 FEB. DORNELLES PROPOSED THAT MON 27 FEB., TUES. MORNING 28 FEB. AND TUES. AFTERNOON

IF NECESSARY, BE DEVOTED TO TAX MATTERS, INCLUDING TAX
CREDIT REVOCATION, POSSIBLE BASIS FOR BILATERAL TAX TREATY,
AND CURRENT STATUS OF U.S. TAX REFORM PROPOSALS. THE TALKS
WOULD FOCUS ON TRADE AFFAIRS ON WED-THURS., 1-2 MARCH.
FRIDAY, 3 MARCH WOULD BE OPEN FOR FURTHER DISCUSSIONS OF
EITHER SET OF TOPICS, AS NECESSARY. DORNELLES WOULD
APPRECIATE TREASURY'S RESPONSE TO PROPOSED SCHEDULE AND
INDICATED HE WANTS TO BE FLEXIBLE AND RESPONSIVE TO
DESIRES OF U.S. TEAM.
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